HAWK OIL INC. 2000 ANNUAL REPORT

Hawk Oil Inc. is an emerging junior oil and gas exploration and production company operating in Western Canada and headquartered in Calgary, Alberta.

CORPORATE PROFILE

HAWK was incorporated as a private company in **1996** and completed its initial public offering in **1997**. Its shares are listed on the Canadian Venture Exchange (CDNX) under the symbols **HWK.A** and **HWK.B**.

In 2000, Hawk experienced its fourth consecutive year of **significant reserve, production** and cash flow growth. The Company continues to maintain a large portfolio of low-to-medium risk, internally-generated exploration and development plays. Hawk operates the vast majority of its production and strives to minimize operating, finding and onstream costs. The Company is strategically positioned with a **strong** balance sheet, excellent **cash flow** and **earnings**, large undeveloped **land** position and a solid **management** team to take advantage of **growth** opportunities.

2000 HIGHLIGHTS

FINANCIAL

	2000	1999	% Change
Gross production revenue	$ 11,168,102	$ 4,273,429	161
Cash flow	$ 6,878,810	$ 2,437,051	182
Earnings	$ 3,382,952	$ 990,700	241
Capital expenditures	$ 9,846,231	$ 4,880,787	102
Working capital deficiency	$ (666,491)	$ (901,405)	(26)
Bank debt	$ 4,709,250	$ 1,500,000	214
Shares outstanding at year end			
Class A	5,369,533	5,375,733	–
Class B(1)	712,752	712,752	–

(1) Hawk is an "A/B" structured company with Class B flow-through shares converting to Class A shares, at the Company's discretion, between July 31, 2000 and July 1, 2002 at a ratio of the $10 Class B share purchase price divided by the Class A share trading price at the time of conversion. As the price of the Class A shares on the CDNX rises, the effective dilution caused by the Class B share conversion diminishes. Hawk reports its cash flow, net income and net asset value on a per Class A share basis and on a fully diluted basis. For this reporting period the conversion ratio to be used on the fully diluted basis is based upon the December 31, 2000 Class A share trading price of $1.10 per share. Accordingly, Hawk's fully diluted shares outstanding for this reporting period will be deemed to grow by 6,479,564 shares, a full 18 months before the final conversion date.

OPERATING

	2000	1999	% Change
Average production			
Crude oil and NGLs (bbls/day)	372	202	84
Natural gas (mcf/day)	3,020	2,500	21
Oil equivalent (boe/day) (10:1)	674	452	49
Exit production (4Q average)			
Crude oil and NGLs (bbls/day)	604	252	140
Natural gas (mcf/day)	3,981	2,021	97
Oil equivalent (boe/day) (10:1)	1,002	454	121
Average selling prices			
Oil ($/bbl)	34.93	24.91	40
Natural gas ($/mcf)	5.83	2.67	118
Reserves (Proven)			
Oil and NGLs (mbbls)	2,540	1,042	144
Natural gas (mmcf)	6,050	11,783	(49)
Barrels of oil equivalent (mboe at 10:1)	3,145	2,220	42
Reserve value (12% DCF, $M)	33,600	20,152	67
Reserves (proven and probable)			
Oil and NGLs (mbbls)	3,880	2,077	87
Natural gas (mmcf)	8,010	14,765	(46)
Barrels of oil equivalent (mboe at 10:1)	4,681	3,554	32
Reserve value (12% DCF, $M)	44,800	26,614	68
Undeveloped land (acres)			
Gross	28,017	24,695	13
Net	22,477	19,281	17
Wells drilled			
Gross	16	13	23
Net	15.8	12.1	31
Success rate	75%	79%	(5)

LETTER TO THE SHAREHOLDERS

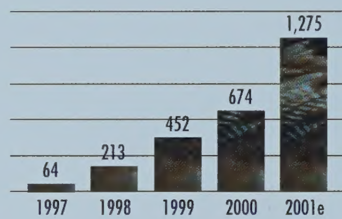
Hawk Oil Inc. experienced its fourth consecutive year of significant growth in reserves, production and cash flow in 2000. The Company's highlights for the year include:

- Increased net asset value by 58 percent to $35.9 million at year-end 2000 from $22.7 million in 1999;
- Increased earnings per share by 241 percent to $3.4 million;
- Increased cash flow by 182 percent to $6.9 million;
- Drilled 16 (15.8 net) wells, 50 percent of which were classified as exploration, resulting in 12 (11.8 net) producers for an overall success rate of 75 percent;
- Replaced 376 percent of 2000 production on a proved reserves basis;
- Increased average daily production by 49 percent year-over-year;
- Achieved a finding and development cost of $8.41 per barrel of oil equivalent on a proven reserves basis; and
- Prepared for 2001 drilling program by shooting three large 3D seismic programs and by acquiring key land.

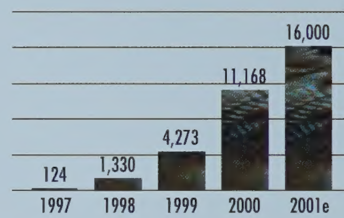
Since Hawk Oil's inception in 1997, the Company has demonstrated consistent and profitable growth, year after year, in both high and low commodity price environments. The bar charts below clearly illustrate this pattern.

CONSISTENT AND PROFITABLE GROWTH

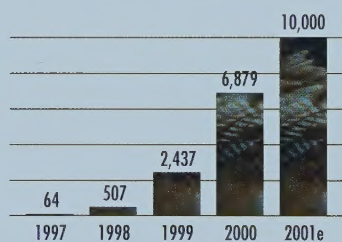
Average Production
(boe/day)



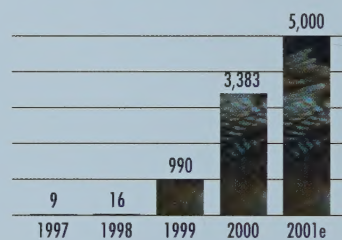
Gross Revenue
($ thousands)



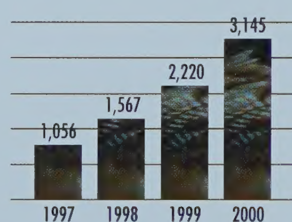
Net Cash Flow
($ thousands)



Net Earnings
($ thousands)



Proved Reserves
(mboe)



GROWTH STRATEGY

Hawk's primary strategy continues to be profitable growth on a per share basis by concentrating on near-term cash flow. The Company accomplishes this by targeting high netback products and by exploring in low-cost areas characterized by year-round access, available existing infrastructure, moderate drilling depths and affordable land costs.

This strategy served Hawk well in 2000, as the Company was able to take advantage of previous exploration successes by ramping up production with numerous low-risk development projects, thereby reaping the benefits of high commodity prices. In addition, the Company spent 50 percent of its capital budget on exploration projects to ensure that Hawk has future development growth potential.

Another aspect of Hawk's strategy is to limit risk exposure. Hawk believes that it is prudent for an emerging company to pursue moderate-risk, moderate-reward prospects as opposed to high-risk, high-reward prospects. Accordingly, the Company has concentrated on lower-risk areas such as North Epping and Vermilion, resulting in an excellent drilling success rate accompanied by immediate cash flow. As Hawk Oil continues its rapid growth we will increase our exposure to higher-risk, higher-reward prospects. Hawk has defined several high-impact locations that will be drilled this year.

As drilling prospects are developed, Hawk's level of participation in any given play continues to be determined by cost and risk analysis. The Company strives for operatorship and a high working interest in any development or moderate-risk exploration project in order to maintain control over the technical aspects, capital and operating costs. Hawk continues to operate virtually all of its production at an average working interest of approximately 85 percent. On deeper, higher-risk exploration wells, the Company limits its working interest to 25–65 percent.

We continue to recognize the importance of a balanced portfolio of opportunities. Part of this balance includes the numerous drillable oil prospects that Hawk has stockpiled. These include light oil development projects such as horizontal infill and step-out drilling at Bromhead and Glen Ewen, as well as exploratory drilling at Bromhead West and Oxbow, Saskatchewan. The Company also holds numerous multi-zone, infill heavy oil locations at North Epping, Saskatchewan. Additionally, Hawk has various drill-ready natural gas opportunities in Vermilion, Hines Creek and West Edmonton. We are constantly evaluating opportunities for acquisitions or farm-ins where vertical infill, horizontal infill, step-out or outpost drilling is required to further exploit existing pools or to find new ones.

INDUSTRY OUTLOOK

The oil and natural gas industry has seen a great deal of volatility over the past few years, with commodity prices for both oil and natural gas climbing from the lows experienced in early 1999 to historically high levels by the end of 2000. On the natural gas front, overall North American supply and demand are currently in a delicate balance while consumption continues to increase in the United States at a rate greater than the increase in production capability. With increased gas pipeline export capacity from Western Canada, Canadian natural gas prices will remain closely linked to U.S. prices, resulting in strong Canadian prices for the foreseeable future.

World demand for crude oil has grown unabated since 1993, at an average rate of two percent per year. On the supply side, OPEC has met the growing world demand but with the exception of Saudi Arabia and Iraq, is reaching the limit of its unused capacity. With this tight supply-demand situation, the price of crude oil should remain relatively high throughout 2001. However, if the world economy continues to slow down, the oil demand will decrease and there could be some downward pressure on the price of crude.

While this commodity price environment has strengthened the profitability of the oil and gas industry as a whole, it has also increased the level of competition for skilled people, oil field services and growth opportunities. Hawk is fortunate to have in place an excellent technical team. This team has developed numerous drillable prospects and acquired the necessary land to sustain continued growth.

STEVE FITZMAURICE, PRESIDENT AND CHIEF EXECUTIVE OFFICER
DAVE BONNAR, SENIOR GEOLOGIST
RANDY DEOBALD, VICE PRESIDENT EXPLORATION
ERIK DEWIEL, VICE PRESIDENT, LAND AND BUSINESS DEVELOPMENT

CORPORATE GOVERNANCE

Hawk continues to be very cognizant of the concerns of both regulators and investors regarding the integrity of financial and reserve information reported by the oil and natural gas industry. Accordingly, it is Hawk's objective to maintain the highest level of accuracy and integrity in all of our disclosures. For 2000, Hawk addressed the year-end independent reserve evaluation at the Board level with both Management and the independent engineers, Gilbert Lautsen Jung Associates Ltd. The Company already has in place an audit committee, comprised of Board members, to address the accuracy and integrity of our financial reporting with both Management and the independent auditors, PricewaterhouseCoopers LLP.

2001 OUTLOOK

Since Hawk's inception in 1997, the Company has prudently invested the $8.8 million it has raised through two equity offerings, resulting in a current net asset value of $35.9 million. We are proud of our growth to date, and we believe that our operating strategy, land base, financial position and strength of management team will continue to form a strong foundation for further growth in production, reserves and cash flow during the current year.

In 2001, Hawk will continue to focus the bulk of its capital spending in Lloydminster, Vermilion and Southeast Saskatchewan where the Company has demonstrated that it can profitably grow with moderate risk drilling. In addition,

Hawk plans to spend approximately 20 percent of its 2001 budget on deeper, higher risk natural gas prospects in the West Edmonton and Peace River Arch areas. The Company has set a capital budget of $10.0 million for exploration and development drilling, which will be funded entirely from cash flow. During the year, Hawk plans to drill 24 high working-interest exploration and development wells on internally-generated prospects.

Excluding acquisitions, Hawk is forecasting average production for 2001 of 1,275 barrels of oil equivalent per day, with a year-end target rate of 1,550 barrels of oil equivalent per day. The Company is forecasting 2001 cash flow of $10.0 million and net earnings of $5.0 million, based upon commodity price assumptions of US$26.00 per barrel of WTI crude oil and $6.00 per thousand cubic feet of Alberta spot natural gas. We are currently evaluating both larger property and corporate acquisitions that fit our corporate strategy. To that end, Hawk is continuously searching for operated, high-interest, under-developed properties that can be acquired at a reasonable cost.

Hawk is well positioned to take advantage of the many excellent opportunities available to grow the Company. We have a strong balance sheet with little debt. We maintain a low cost structure with below average finding and development costs, operating costs and general and administrative costs. When equity markets improve for oil and natural gas producers, Hawk will consider raising additional capital to fund the drilling of its substantial inventory of exploration and development opportunities.

ACKNOWLEDGMENTS

I would like to take this opportunity to thank our shareholders, directors, employees and other stakeholders for their support over the past year.

On behalf of the Board of Directors,

S. Fitzmaurice

Stephen J. Fitzmaurice
President and Chief Executive Officer
Chairman of the Board
March 22, 2001

OPERATIONS REVIEW

During 2000, Hawk focused on maintaining a balanced oil and natural gas production ratio. Over the year, oil prices continued to strengthen and show signs of longer term stability. As a result, the Company chose to increase capital spending on its low risk North Epping development project. Hawk also acquired an interest in a medium gravity oil pool in Southeast Saskatchewan during the year which paves the way for additional horizontal drilling success similar to that achieved at Glen Ewen.

Overall, the Company increased average production by 49 percent over 1999 to 674 barrels of oil equivalent per day. Hawk exited 2000 producing more than 1,000 barrels of oil equivalent per day. Over the past year production averaged 45 percent natural gas and 55 percent oil. This was accomplished through the drilling of 16 (15.8 net) wells in Alberta and Saskatchewan. Hawk's entire natural gas production is uncontracted, thereby realizing the full benefit of natural gas prices which have soared to record highs.

Average yearly production has steadily increased from 64 barrels of oil equivalent per day in 1997, to 213 barrels of oil equivalent per day in 1998, to 452 barrels of oil equivalent per day in 1999, to 674 barrels of oil equivalent per day in 2000. In 2000, Hawk drilled 10 (9.8 net) wells on its North Epping property and cased nine for production. Eight were cased as oil wells while one was cased as a natural gas well. All are currently producing. At Glen Ewen, in southeast Saskatchewan, the Company drilled one (1.0 net) horizontal oil well. Hawk drilled successful natural gas wells at Glenevis (1.0 net) and Ranfurly (1.0 net), Alberta. The Company operated 100 percent of its drilling activity and enjoyed a success rate of 75 percent.

Hawk's proved reserves totalled 3.15 million barrels of oil equivalent as of December 31, 2000. This represents a 42 percent increase in proven reserves over 1999. It also represents a 376 percent replacement of the Company's 2000 production on a proven reserve basis. Hawk's finding and development cost for 2000 was \$8.41 per barrel of oil equivalent for proven reserves and \$7.74 per barrel of oil equivalent for established (proven plus 50 percent of probable) reserves. This figure was affected by significant capital expenditures on land and seismic which occurred late in the year to set up drilling for 2001. Hawk has enlarged its seismically defined drill-ready portfolio to more than 35 locations, most of which are low risk development. Hawk has demonstrated consistency since the Company's inception in 1997, with a four-year average finding and development cost of \$6.49 per barrel of oil equivalent proven and \$5.36 per barrel of oil equivalent established.

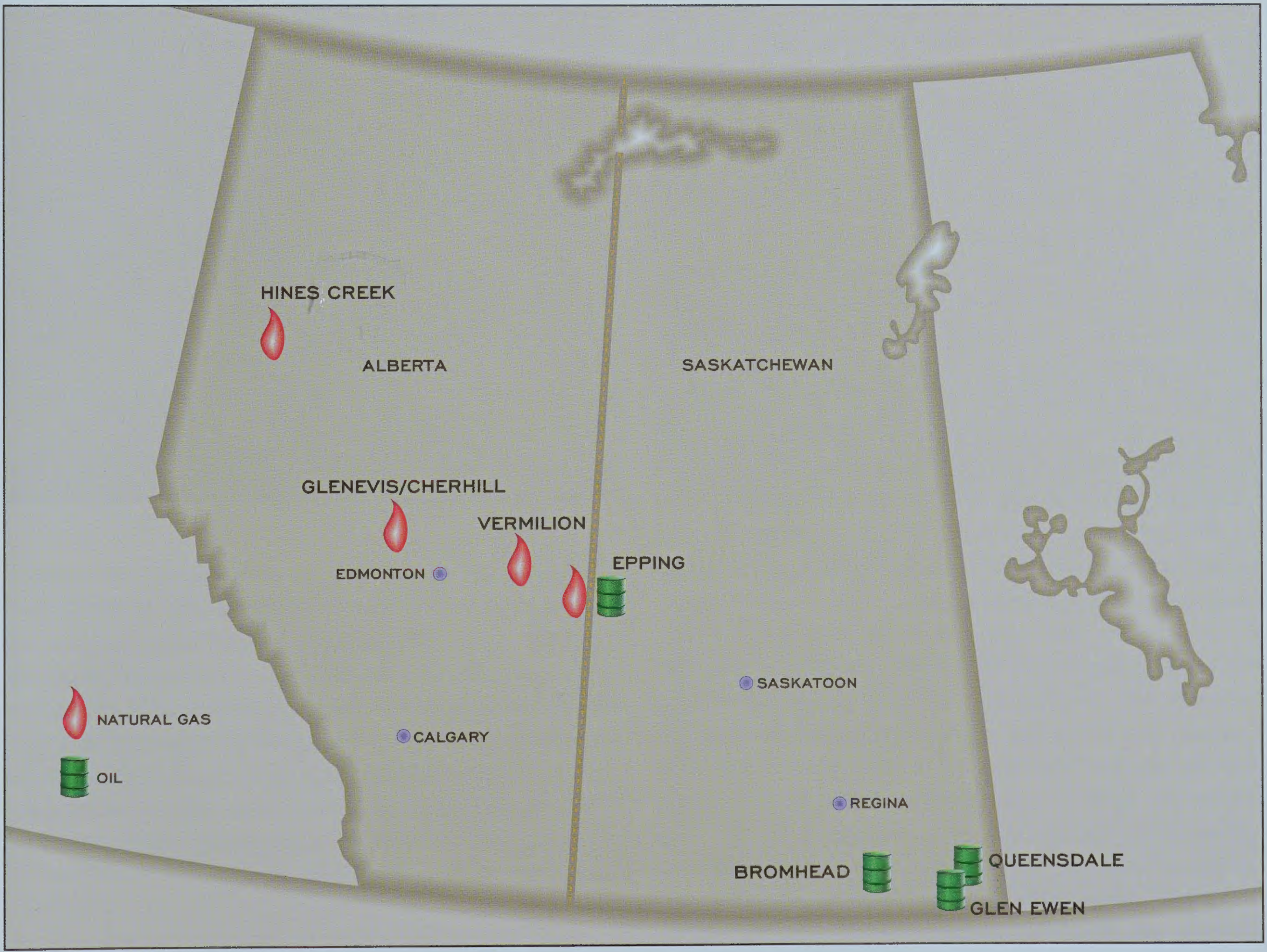
During 2000, Hawk increased its land inventory to 42,293 gross (31,696 net) acres from 35,114 gross (26,136 net) acres in 1999. The majority of this acreage (28,017 gross; 22,477 net) is undeveloped. During the past year Hawk also acquired the interest of its remaining partner at Glen Ewen and acquired a significant interest in another underdeveloped southeast Saskatchewan oil pool at Bromhead.

EXPLORATION AND DEVELOPMENT STRATEGY

Hawk's success in 2000 was based on strict adherence to our established growth strategy. The Company's exploration and development activity during 2001 will be guided by the following key elements:

- Concentrating on projects which generate near-term cash flow;
- Exploring in areas with low to moderate cost and available infrastructure;
- Exploring for pools that can be brought onstream quickly;
- Maintaining control over capital and operating costs;
- Concentrating on areas that are well understood by our technical team;
- Pursuing internally-generated prospects using sophisticated geophysical technology;
- Maintaining high working interests and, wherever possible, operatorship;
- Expanding our land base within our core areas; and
- Maintaining a large, balanced inventory of exploration, development and acquisition opportunities.

CORE PROPERTIES



All barrel of oil equivalent figures in this report have been converted on the basis of 10,000 cubic feet of natural gas equals one barrel of crude oil.

KEY PROPERTIES

NORTH EPPING

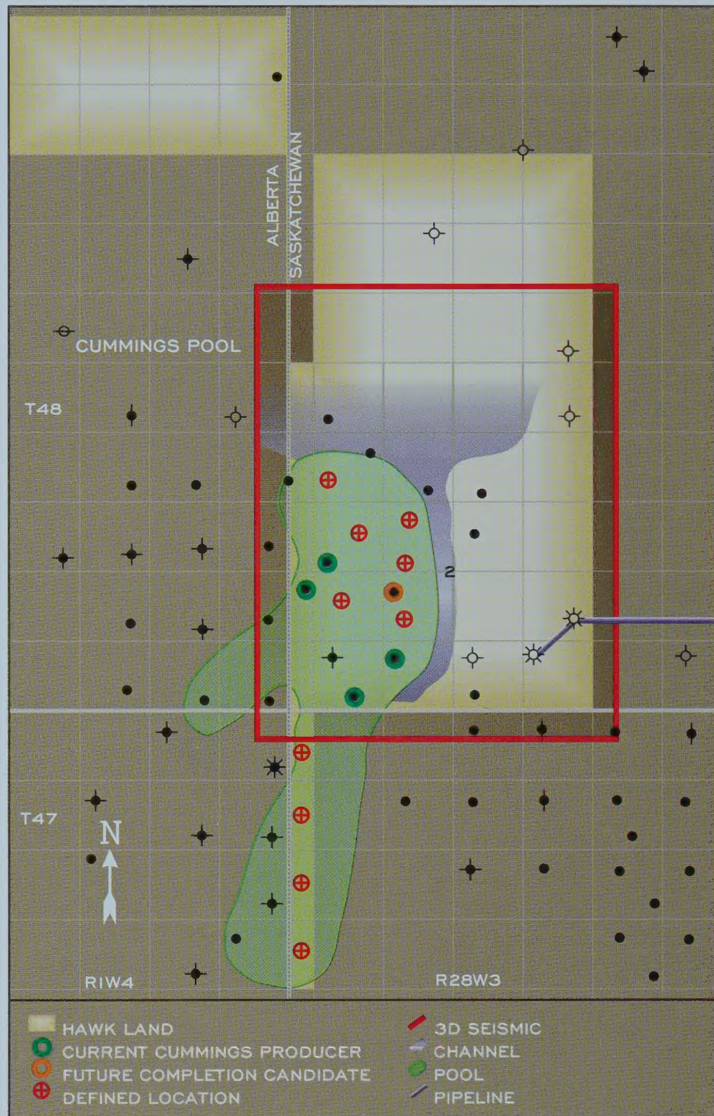
This property lies 10 miles south of Lloydminster on the Alberta-Saskatchewan border and was acquired at Crown land sales on an internally-generated prospect. Production in this region is associated with stacked sands of the Mannville Group, all of which display excellent reservoir characteristics. Hawk holds approximately 1,748 gross (1,736 net) acres of land at North Epping. To date, the Company has drilled 16 wells on the property and re-entered one abandoned well to complete a missed pay zone. A step-out well to test a separate seismic anomaly represents the only dry hole drilled at North Epping to date.

Hawk currently owns a total of 14 producing oil wells and two producing natural gas wells on this property. These 16 wells produce from six zones including the Lower Cummings, Lloydminster, General Petroleum (GP), Sparky, McLaren, and Colony. The presence of economic hydrocarbon accumulations in so many zones results in numerous opportunities for accelerated production through additional drilling.

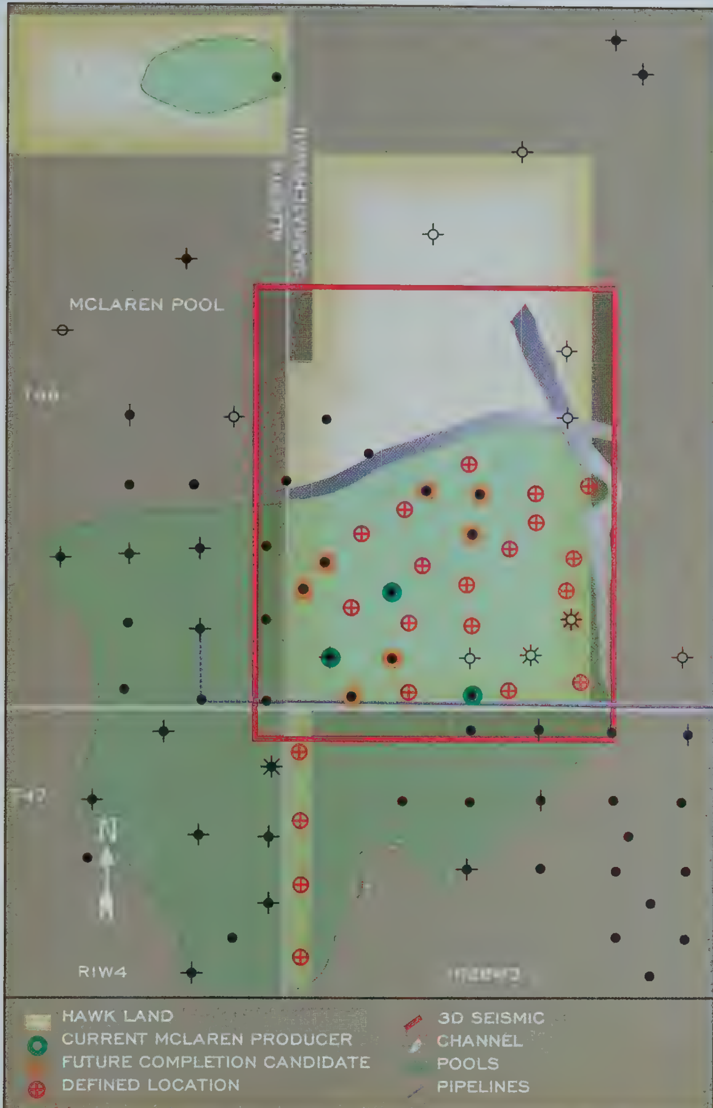
The North Epping property is currently producing approximately 425 barrels of oil per day and 1.3 million cubic feet of natural gas per day. This equates to a total of 559 barrels of oil equivalent per day and represents a 482 percent increase over the 1999 average rate of 82 barrels of oil equivalent per day. Oil quality ranges from 14° API in the Lower Cummings to 18° API in the McLaren. Average field netbacks at North Epping were $20.00 per barrel of oil and $3.49 per thousand cubic feet of natural gas. Operating costs for the year averaged $7.23 per barrel of oil and $0.38 per thousand cubic feet of natural gas.

At North Epping, Hawk has four producing Lower Cummings oil wells with the potential to drill an additional seven net locations (see North Epping/Cummings map). The Company drilled a new pool discovery in late 1999 in the Lloydminster Formation, which has consistently produced in excess of one million cubic feet per day of natural gas since that time. Additional attic gas (natural gas lying above oil in the same formation) potential, in this zone, has been identified in a number of offsetting wells. Moving upward in the stratigraphic column, Hawk has six oil wells producing from the Sparky/GP interval (see North Epping/Sparky/GP map). Four of these wells have been drilled into a prolific new reservoir. There remain 8.25 net additional locations on Company acreage for this zone. Above the Sparky/GP interval lies the McLaren, which is presently producing 18° API oil from four wells. An additional 18 net McLaren locations have been seismically defined at North Epping (see North Epping/McLaren map). As well, a new Colony natural gas pool was discovered at North Epping. This well is currently producing at a restricted rate of 300 thousand cubic feet per day.

NORTH EPPING/CUMMINGS MAP



NORTH EPPING/MCLAREN MAP



Hawk has applied for and received approval from Saskatchewan Energy and Mines for an order to change spacing in this newly designated pool. The new order allows for the drilling of two wells per 40-acre legal subdivision. This will allow Hawk the flexibility to optimize future drilling locations as defined by the Company's 3D seismic data. This 3D survey has been instrumental in allowing Hawk to unravel the complex geology associated with the numerous stacked pay zones present at North Epping. To date, three new pool discoveries on this acreage are directly attributable to the 3D survey.

NORTH EPPING/SPARKY/GP MAP

Hawk plans to drill 11 net heavy oil wells in its 2001 capital budget. Approximately half of these will be in the North Epping area. The Company drilled one new pool discovery in the first quarter of 2001, with very encouraging initial production rates.

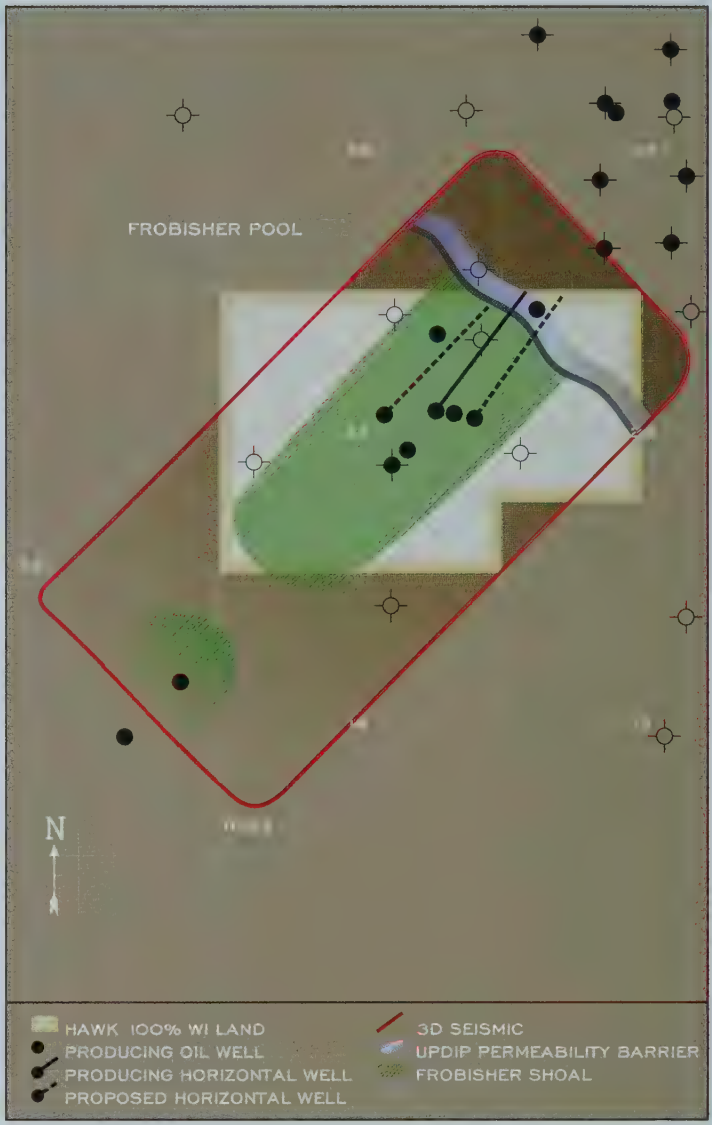
GLEN EWEN

Glen Ewen lies approximately 30 miles east of Estevan, Saskatchewan and produces 34° API light oil from the Frobisher Formation. The Company acquired the remaining working interest of its partners at Glen Ewen during the first half of 2000 and now holds a 100 percent working interest in 880 acres of land with five producing oil wells. The reservoir zone was deposited as a series of coalescing, shallow water, high energy shoals trapped updip by impermeable, muddy, evaporitic sediments. High-porosity, high-permeability, oolitic limestones comprise the reservoir rock.

The Glen Ewen pool produced an average of 81 barrels of oil equivalent per day during 2000. This represents a 238 percent increase over the 24 barrels of oil equivalent per day the pool produced when Hawk acquired operatorship in 1998. Hawk shot a 3D seismic program over the Glen Ewen property and subsequently drilled the first horizontal well (1.0 net) in this pool in June 2000. This well encountered a number of excellent pay intervals and produced an average of approximately 115 barrels of oil per day with low water cuts during the second half of 2000. The well paid out all costs associated with the drilling, completion and tie-in within five months and has produced 28,000 barrels to date. Operating costs at Glen Ewen averaged $2.96 per barrel during 2000, generating very favourable average field netbacks of $34.85 per barrel.

Hawk's 3D seismic survey has defined a number of additional drilling opportunities on the acreage. Hawk has budgeted a second horizontal well in the pool to be drilled during the second quarter of 2001.

GLEN EWEN MAP



BROMHEAD

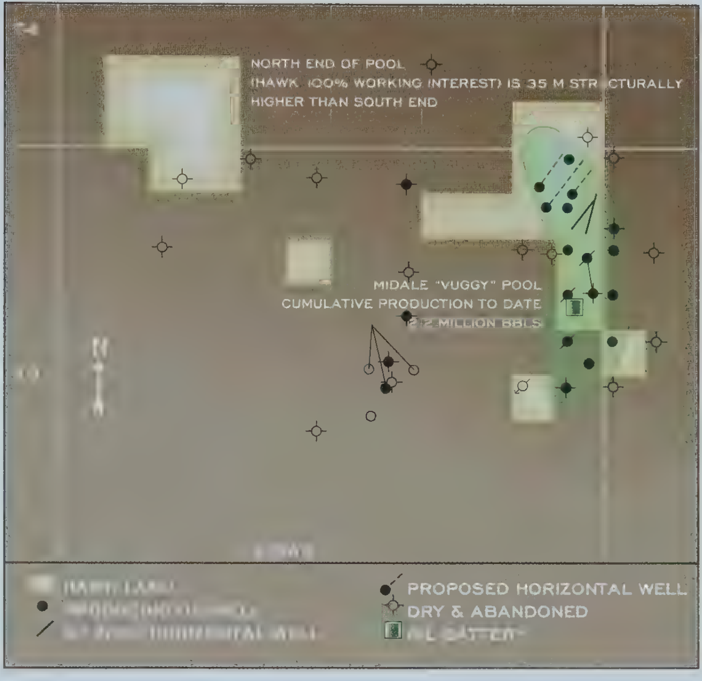
During mid-2000, Hawk acquired various working interests in the Bromhead medium gravity oil pool, which lies approximately 30 miles south of Weyburn, Saskatchewan. This Mississippian-age Midale "Vuggy" pool has produced 2.2 million barrels of 25° API oil to date. The Company's average working interest in the acquired acreage is 62.5 percent, with certain key lands held at 100 percent. Hawk also acquired a 25 percent working interest in a battery. Including adjacent lands and exploratory acreage in the immediate area, Hawk controls 3,360 gross (2,590 net) acres on this evolving play.

The acquisition also included four oil wells producing a total of 25 net barrels of oil per day at a stabilized rate. Average field netbacks over the subsequent six-month period were $20.72 per barrel of oil with operating costs of $11.56 per barrel. This operating cost is higher than normal due to two workovers which were necessary to maximize the production of the wells.

The reservoir rock at Bromhead consists of a "Vuggy" limestone with porosities ranging from 12–18 percent and permeabilities up to hundreds of millidarcies. The reservoir sediments were deposited as subtidal, offshore shoals along the northern margin of the Williston Basin. At Bromhead, oil is stratigraphically trapped on a southward-dipping structural nose that pinches out updip to the north into muddy, impermeable rock. Hawk holds a 100 percent working interest in section 36-3-13W2M which lies at the northern, or updip end of the pool. The two vertical producing wells on Section 36 have demonstrated consistent production with low to moderate water cuts over many years.

Hawk is excited about the opportunity for horizontal development on this acreage. The Company believes the potential exists for multiple horizontal locations in this underdeveloped pool. Midale "Vuggy" pools in Southeast Saskatchewan often demonstrate excellent reservoir characteristics, as at Bromhead, and as a result, prolific production when drilled horizontally. The opportunity Hawk has acquired at Bromhead is very similar to the Glen Ewen property the Company acquired in 1998. The Company's first horizontal well (1.0 net) in Section 36 will be drilled during the first quarter of 2001.

BROMHEAD MAP



WESTERN ALBERTA

Hawk drilled a successful Banff Formation natural gas well at Glenevis, which lies west of Edmonton. This well is currently producing approximately 300 thousand cubic feet per day of sweet natural gas. Surface equipment is currently being reconfigured which should restore production to the well's average rate during the last four months of 2000 of 500 thousand cubic feet per day. Field netbacks at Glenevis were $6.46 per thousand cubic feet during this period, with operating costs of only $0.21 per thousand cubic feet.

Hawk is preparing to spud a second (0.65 net) dual zone natural gas test in this region during the second quarter of 2001.

HINES CREEK

Hawk holds a 100 percent working interest in 1,920 acres of land within the Hines Creek gas field on the Peace River Arch in Northwest Alberta. This field produces sweet natural gas from numerous Cretaceous sands above 1,000 metres depth. Hawk drilled one natural gas well on this acreage in early 1999, which encountered gas pay in a number of zones. This well has produced approximately 0.5 billion cubic feet to date and is still producing at a steady 600 thousand cubic feet per day. Netbacks on this gas were $3.17 per thousand cubic feet while operating costs averaged $0.87 per thousand cubic feet through 2000.

During the past year, Hawk has acquired seismic data over Company acreage to define a drilling location for the next winter season. Competitor drilling on adjacent lands took place in early 2001 and Hawk is monitoring results.

VERMILION

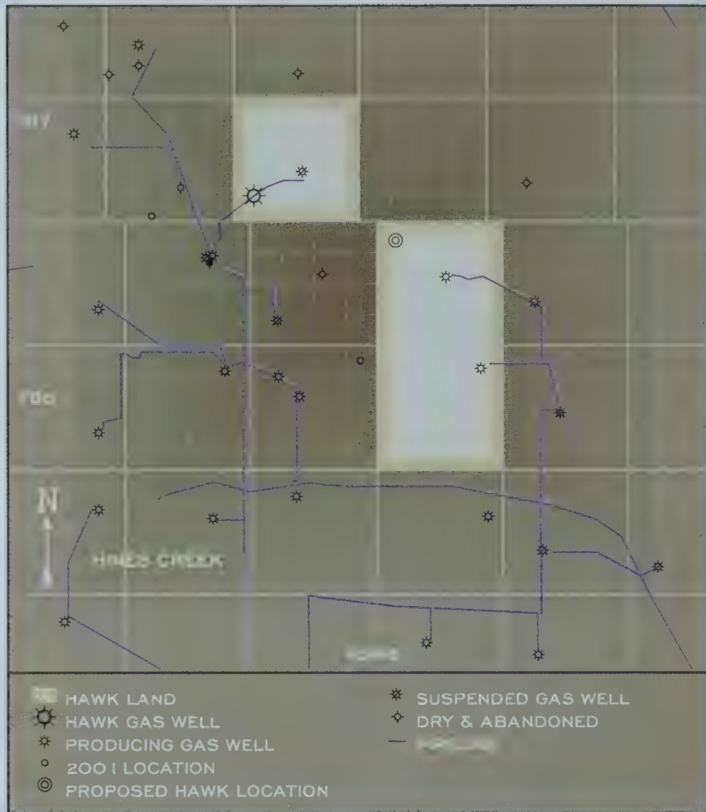
For the past two-and-a-half years Hawk has controlled a large farm-in block in the Vermilion/Two Hills area. When Hawk negotiated this deal considerable processing capacity existed in a number of natural gas plants in this area. Sharply increased gas prices over the past two years resulted in increased drilling activity in the area by the operators of these facilities. This caused production from the Company's strongest natural gas wells in the area to be severely curtailed. As this scenario appeared likely to continue, the Company made a strategic decision in late 2000 not to renew the farm-in.

The Vermilion region remains a core area for Hawk as the Company continues to aggressively acquire land and expand activities in areas where production constraints are not an issue. Hawk currently holds 8,960 gross (8,640 net) acres of undeveloped land. These lands are prospective for natural gas in a number of Cretaceous zones plus the Devonian sub-crop, all at depths of less than 800 metres.

During 2000, Hawk drilled four wells in the Vermilion area as part of the third farm-in phase. A significant new pool was discovered with follow-up drilling potential. The initial well is producing at a consistent 850 thousand cubic feet per day from a Lower Mannville sand. The Company's net production in Vermilion averaged 1.35 million cubic feet per day during 2000. Production is currently 1.7 million cubic feet per day net to Hawk. Average field netbacks were $4.37 per thousand cubic feet of natural gas over 2000, while operating costs averaged $0.70 per thousand cubic feet.

The Company has acquired considerable seismic data in this region over the past year. Hawk has identified a number of exciting opportunities and will commence drilling following spring breakup. Hawk has budgeted a total of eight gas tests in this region for 2001, with at least four to be drilled in the second quarter.

HINES CREEK MAP



2000 IN REVIEW

The past year in the Canadian oil and gas industry witnessed an unprecedented surge in natural gas prices coupled with sustained strength in crude oil prices, which supported a record drilling pace. In the capital markets, there was a moderate resurgence of investor interest in large-cap energy companies. Set against this buoyant backdrop, the micro and junior oil and gas sector stood in stark contrast. In general, smaller companies continued to suffer from a lack of investor attention resulting in a wider disparity between share price and net asset value. Carefully managed junior companies continued to grow in asset value, albeit at restrained rates, by using cash flow and moderate bank debt to finance capital projects. Hawk Oil was among this group, showing steady growth through 2000 and exiting the year as a significantly larger company with a healthy balance sheet.

OPERATIONAL HIGHLIGHTS

During 2000, Hawk:

- Grew average daily production by 49 percent to 674 barrels of oil equivalent per day;
- Exited 2000 producing more than 1,000 barrels of oil equivalent per day;
- Acquired a new, exciting, horizontal development opportunity at Bromhead;
- Received approval for spacing change on the Company's North Epping property, resulting in 20 net drilling locations;
- Identified and acquired land on the Company's next exploratory/development project in the Lloydminster area. Three-dimensional seismic has been shot in preparation for drilling during the second quarter of 2001;
- Drilled 16 gross (15.8 net) wells, including eight exploratory wells, resulting in 12 producers for an overall success ratio of 75 percent;
- Discovered two new natural gas pools that are currently contributing 1.3 million cubic feet per day net to Hawk;
- Discovered two new oil pools early in 2001 which are currently being evaluated; and
- Drilled first horizontal development well (100 percent working interest) at Glen Ewen. This well averaged 115 barrels of oil per day in the second half of 2000.

LOOKING FORWARD

Hawk is proud of the results achieved over the past year and is anticipating similar levels of success in 2001. Hawk intends to employ the same growth strategies that have been successful in the past. The Company intends to drill a minimum of 11 wells in the Lloydminster region. These locations will be a mix of exploratory and development wells and will capitalize on Hawk's experience as a low cost producer in the area. The Company will drill a horizontal development well (100 percent working interest) at Bromhead during the first quarter of 2001. The Midale "Vuggy" zone is noted for prolific production and Hawk's extensive land position ensures that success on the initial well will lead to additional locations. Additional horizontal drilling is planned at Glen Ewen during the second quarter, offsetting Hawk's initial successful well.

On the natural gas side, the Company continues to add land to its substantial base in the Vermilion area. Hawk is looking forward to drilling a minimum of eight wells on a variety of seismically defined prospects, some of which will follow up on the Company's significant new pool discovery at Ranfurly. One well is also budgeted for the Hines Creek area, to be drilled on existing Hawk lands during the next winter drilling season.

The Company has now reached the size where selected higher risk, higher reward prospects will form an important component of Hawk's growth opportunities. Fifteen to 20 percent of Hawk's capital budget will be directed to plays of this nature. An example of such an opportunity is the prospect Hawk will drill in the second quarter at Cherhill, west of Edmonton. The Company will operate a dual-zone Banff/Nordegg natural gas test and take a 65 percent working interest.

Hawk has demonstrated a consistent growth profile in its four-year history. This has been accomplished primarily through reinvesting cash flow and to a lesser degree through prudent use of bank debt. Hawk is positioned to maintain consistent growth in 2001 as, once again, opportunities outnumber the Company's financial capability to exploit them all. This year promises to be exciting as the Company gears up for its busiest year ever.

DRILLING SUMMARY

During 2000, Hawk participated in the drilling of 16 (15.8 net) wells, 50 percent of which were classified as exploration, resulting in 12 (11.8 net) producers for an overall success rate of 75 percent. Hawk was the operator of all 16 wells (100 percent).

DRILLING ACTIVITY BY AREA

Property	2000 Wells Drilled
Glen Ewen, SE Saskatchewan	
North Epping, Saskatchewan	10
Vermilion, Alberta	4
Glenevis, Alberta	1
Total	16

DRILLING ACTIVITY

Year ended December 31	2000		1999	
(number of wells)	Gross	Net	Gross	Net
Oil	9.0	8.8	3.0	2.5
Natural gas	3.0	3.0	7.0	7.0
Dry	4.0	4.0	130	2.6
Total	16.0	15.8	13.0	12.1
Exploratory	8.0	8.0	6.0	5.6
Development	8.0	7.8	7.0	6.5
Average working interest (%)		99		93

LAND HOLDINGS

As a junior company, Hawk recognizes the importance of a large undeveloped land base and has continued to accumulate land in strategic areas. Hawk currently holds approximately 42,293 acres (31,696 net) of land, 28,017 acres (22,477 net) of which are undeveloped.

LAND HOLDINGS

	2000			1999		
(Acres)	Gross	Net	WI%	Gross	Net	WI%
Developed	14,276	9,219	65	10,736	7,271	68
Undeveloped	28,017	22,477	80	24,378	18,865	77
Total	42,293	31,696	75	35,114	26,136	74

UNDEVELOPED LAND HOLDINGS (ACRES)

	2000		
At December 31	Gross	Net	WI%
Southeast Saskatchewan	6,537	4,844	74
Glen Ewen, Saskatchewan	560	560	100
Montmartre, Saskatchewan	1,816	908	50
Bromhead, Saskatchewan	1,547	1,547	100
West Central, Saskatchewan	640	640	100
Mervin, Saskatchewan	638	638	100
North Epping, Saskatchewan	1,636	1,636	100
West Edmonton, Alberta	2,803	1,784	64
Hines Creek, Alberta	1,280	1,280	100
Vermilion, Alberta	5,120	4,800	94
Ranfurly, Alberta	3,520	3,360	95
Bear Flat, B.C.	1,920	480	25
Total	28,017	22,477	80

In 2000, the Company increased its undeveloped land in Glen Ewen, Bromhead, Mervin and Ranfurly in anticipation of the 2001 drilling program.

PRODUCTION SUMMARY

During 2000, the Company continued to build up a production base in its core areas of Vermilion, North Epping and Southeast Saskatchewan. The average production for 2000 was 674 barrels of oil equivalent per day (gas converted at 10 thousand cubic feet to one barrel of oil), while fourth-quarter production averaged more than 1,000 barrels of oil equivalent per day.

2000 AVERAGE PRODUCTION SUMMARY

Property	Working Interest (%)	Net Gas Production (mcf/d)	Net Oil Production (bbls/d)	Net Total Production (boe/d)
Hines Creek gas	100	598	–	60
Vermilion gas	67	1,350	–	135
West Edmonton	100	147	–	15
North Epping gas	100	868	–	87
North Epping oil	100	–	213	213
Queensdale oil	100	–	51	51
Glen Ewen	100	57	76	81
SE Saskatchewan	50	–	32	32
Total		3,020	372	674

2000 FOURTH QUARTER AVERAGE PRODUCTION SUMMARY

Property	Working Interest (%)	Net Gas Production (mcf/d)	Net Oil Production (bbls/d)	Net Total Production (boe/d)
Hines Creek gas	100	657	–	66
Vermilion gas	67	1,375	–	138
West Edmonton	100	433	–	43
North Epping gas	100	1,423	–	142
North Epping oil	100	–	400	400
Queensdale oil	100	–	47	47
Glen Ewen	100	93	119	128
SE Saskatchewan	50	–	38	38
Total	–	3,981	604	1,002

RESERVE SUMMARY

Hawk's reserves have been evaluated effective January 1, 2001 by the independent engineering firm of Gilbert Laustsen Jung Associates Ltd. ("GLJ"). The evaluation of net present value is stated net of royalties, operating costs and future development costs and is stated prior to any provision for income tax, abandonment, overhead and interest costs. Probable reserve values and volumes have been reduced by 50 percent to account for risk. The following tables summarize the findings of the GLJ report on an escalated prices basis:

RESERVE SUMMARY

	Remaining Reserves			Net Present Value Before Income Tax Discounted At			
	Crude Oil (mbbls)	Natural Gas (mmcf)	BOE (mboe)	0% ($mm)	10% ($mm)	12% ($mm)	15% ($mm)
Proven producing	830	4,800	1,310	28.1	23.3	22.6	21.6
Total proven	2,540	6,050	3,145	47.8	35.1	33.6	31.6
Risked probable	670	980	768	10.7	6.0	5.6	5.0
Proven plus risked probable	3,210	7,030	3,913	58.5	41.1	39.2	36.6

The Company's proven reserve life index is 12.8 years and its proven plus half probable reserve life index is 15.9 years.

PRICE FORECASTS

The estimate of net present value is based upon the following price forecast for crude oil and natural gas, which was used in the GLJ Reserve Report.

PRICE FORECASTS

	WTI Crude at Cushing Oklahoma $US/bbl	Light Crude at Edmonton $CDN/bbl	Heavy Crude at Hardisty $CDN/bbl	Natural Gas AECO-C Spot $CDN/mmbtu
2001	27.00	40.25	22.25	7.50
2002	24.00	35.25	22.25	5.60
2003	21.00	30.25	21.25	4.80
2004	21.00	29.75	21.25	4.65

RESERVE RECONCILIATION

In 1999, the Company's oil and natural gas reserves were evaluated by the independent engineering firm of Outtrim Szabo Associates Ltd. In 2000, the Company elected to change engineering firms to Gilbert Laustsen Jung Associates Ltd. (GLJ).

RESERVE RECONCILIATION

	Oil (mbbls)			Natural Gas (mmcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1999	1,042	1,035	2,077	11,783	2,982	14,765
Discoveries and extensions	1,508	186	1,694	2,009	133	2,142
Purchases	61	15	76	0	0	0
Production	136	0	136	1,102	0	1,102
Revisions of prior estimates	65	104	169	(6,640)	(1,155)	(7,795)
December 31, 2000	2,540	1,340	3,880	6,050	1,960	8,010

FINDING AND DEVELOPMENT COSTS

In 2000, Hawk Oil was very successful at adding new reserves with a net drilling success rate of 75 percent and a proven finding and development cost of $8.41 per barrel of oil equivalent. Twenty-eight percent or $2,753,000 of Hawk's 2000 capital expenditures was spent on 3D seismic and Crown land acquisitions. These expenditures will enable Hawk to continue to grow the Company with its 2001 drilling program and should ensure Hawk's future finding and development costs remain competitive.

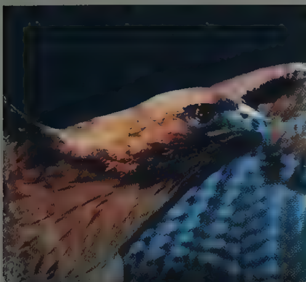
The Company's full-cycle four-year proven finding and development cost is $6.49 per barrel of oil equivalent.

FINDING AND DEVELOPMENT COSTS

	2000	1999	1997–2000
Capital expenditures ($ thousands)	**9,846**	4,881	23,629
Proven reserves added (mboe)	**1,171**	824	3,641
Proven finding and development costs ($/boe)	**8.41**	5.92	6.49
Proven + probable reserve additions (mboe)	**1,374**	810	5,178
Proven + probable finding and development costs ($/boe)	7.17	6.03	4.56

RECYCLE RATIO

The recycle ratio provides a measure of a company's ability to sustain growth. It is calculated by taking the Company's corporate cash flow netback on a barrel of oil equivalent basis and dividing it by the proven finding and development cost per barrel of oil equivalent (for 2000, this was $27.96 per barrel of oil equivalent divided by $8.41 per barrel of oil equivalent). In 2000, Hawk Oil achieved a recycle ratio of 3.33 times.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL SUMMARY

The operating results for the 2000 calendar year were as follows:

CASH FLOW FROM OPERATIONS

($ except per boe amounts) Year ended December 31	2000	1999
Petroleum and natural gas revenues	11,168,102	4,273,429
Tariffs	230,254	141,711
Royalties and mineral taxes	1,810,969	446,553
Production expenses	1,557,547	929,873
General and administrative expenses	275,634	275,916
Interest expenses	287,288	42,325
Current taxes	127,600	Nil
Cash flow	6,878,810	2,437,051
Daily production volume (boe)	674	452
Sales price/boe	45.40	25.90
Tariffs/boe	0.94	0.86
Royalties and mineral taxes/boe	7.36	2.71
Production expenses/boe	6.33	5.64
Field netback/boe	30.77	16.69
General and administrative expenses/boe	1.12	1.67
Interest expenses/boe	1.17	0.26
Current taxes/boe	0.52	0.00
Total Company netback per boe	27.96	14.77

PETROLEUM AND NATURAL GAS REVENUE

In 2000, the Company's total revenue increased by 161 percent over 1999. This large increase is the result of higher production as well as higher commodity prices. For 2000, Hawk Oil received an average oil price of $34.93 per barrel and an average natural gas price of $5.83 per thousand cubic feet. These figures compare favourably with prices received in 1999 of $24.91 per barrel and $2.67 per thousand cubic feet.

ROYALTIES AND MINERAL TAXES

Royalty and Mineral Tax expenses increased in 2000 to $1,810,969 from $446,553 in 1999, reflecting the Company's increased production as well as the increase in the royalty rate. Hawk Oil's overall royalty rate increased to 16.6 percent in 2000 from only 9.3 percent in 1999. This increase can be attributed to two factors. First, the Crown royalty rate increases with increased commodity prices. Second, in 2000 a larger portion of production originated from areas other than the royalty-free Vermilion area.

PRODUCTION EXPENSE

In 2000, production expenses increased to $1,557,547 from $929,873 in 1999. On a unit-of-production basis the rate increased to $6.33 per barrel of oil equivalent in 2000 from $5.64 per barrel of oil equivalent in 1999. This increase can be attributed to a larger proportion of production originating from Hawk's heavy oil areas, which have higher production expenses. In addition, Hawk Oil performed numerous workovers in an effort to maximize production at a time when commodity prices were at very high levels.

GENERAL AND ADMINISTRATIVE EXPENSES

During 2000, Hawk incurred general and administrative expenses of $275,634 or $1.12 per barrel of oil equivalent of production versus $275,916 or $1.67 per barrel of oil equivalent in 1999. The Company also capitalized $437,254 in overhead related costs to petroleum and natural gas properties and equipment.

INTEREST EXPENSE

The Company incurred interest expense of $287,288 in 2000, an increase from $42,325 incurred during 1999. The increase is attributed to the increased bank debt the Company used in 2000.

CURRENT TAXES

In 2000, the Company accrued tax of $127,600 verses nil in 1999. The 2000 tax expense is comprised of two elements. The first is a Large Corporation Tax of $25,700. The Company attracted the Large Corporation Tax as soon as Hawk Oil's capital assets exceeded $10,000,000, which occurred in 2000. The second element is current income tax payable of $102,500, which reflects an increased level of profitability. In 2000, Hawk Oil's tax pools sheltered most, but not all the strong cash flow generated by the Company's assets and the strong commodity prices. At December 31, 2000, Hawk Oil had $7,388,153 in tax pools available to offset the payment of current taxes on future income compromised of:

Canadian Development Expenses (CDE)	$ 1,966,522
Canadian Oil and Gas Property Expenses (COGPE)	2,644,133
Canadian Cost Allowance (CCA)	2,777,498
	$ 7,388,153

CAPITAL EXPENDITURES

Capital expenditures increased from $4,880,787 in 1999 to $9,846,231 in 2000. The Company elected to increase its spending in 2000 to take advantage of the high commodity pricing by ramping up production in development areas such as North Epping and Glen Ewen, Saskatchewan. Capital expenditures included $1,410,000 spent on 2D and 3D seismic as well as $1,343,000 spent on undeveloped land, which will prepare Hawk for its 2001 drilling program.

CAPITAL EXPENDITURES

($ thousands)	2000	1999
Exploration and development	6,215	3,773
Facilities	1,770	748
Land	1,851	348
Other	10	12
Total capital expenditures	9,846	4,881

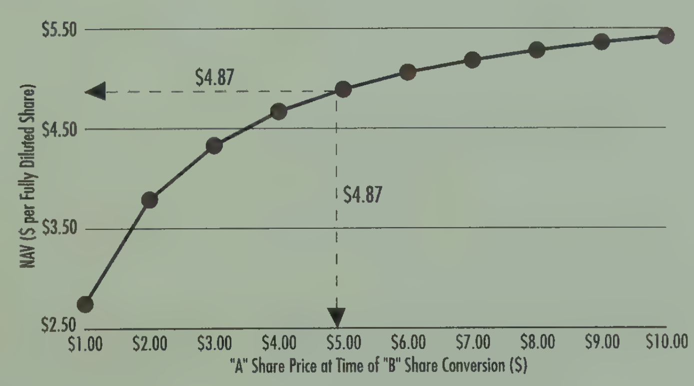
NET ASSET VALUE

As at December 31, 2000, Hawk's net asset value was $2.90 per fully diluted share, assuming the Class B shares were converted into Class A shares at the December 31, 2000 Class A closing price of $1.10 per share. This value is based on the independent evaluation of the Company's proven and half probable reserves, discounted at 12 percent.

NET ASSET VALUE

($ except numbers of shares and per share amounts)	December 31, 2000	December 31, 1999
Proved plus 1/2 probable reserves discounted at 12% before tax	39,150,000	23,383,600
Undeveloped acreage ($75/acre)	1,685,775	1,414,875
Debt plus working capital deficiency	(5,375,741)	(2,401,405)
Proceeds from the exercise of stock options and warrants	428,000	288,300
Net asset value (fully diluted)	35,888,034	22,685,370
Outstanding Class A shares	5,369,533	5,375,733
Outstanding Class B shares	712,752	712,752
Outstanding stock options	533,000	393,000
Net asset value per Class A share	6.60	4.17
Net asset value (fully diluted) per share with Class B shares converted to Class A shares at Dec. 31, 2000 closing price of $1.10	2.90	2.01

The accompanying chart shows Hawk Oil's current NAV on a fully diluted per share basis assuming various Class B share conversion prices. In the worst case scenario, whereby Hawk's Class A shares are trading at less than $1.00 at the time of conversion, the Company's fully diluted NAV equates to $2.75 per share. At a $10.00 conversion price, the Company's fully diluted NAV equates to $5.42 per share. If Hawk Oil were sold or traded at its actual NAV and the Class B shares were converted accordingly, then the Company's fully diluted NAV would equate to $4.87 per share.



DEPLETION AND AMORTIZATION

DEPLETION AND AMORTIZATION

	2000		1999	
	$	$/boe	$	$/boe
Depletion and amortization	1,410,951	5.74	727,309	4.41
Site restoration	37,525	0.15	20,683	0.13
Total	1,448,476	5.89	747,992	4.54

The Company's depletion and depreciation expenses increased to $1,410,951 in 2000 from $727,309 in 1999, primarily reflecting the increases in production over the period. On a unit basis, Hawk Oil's depletion and amortization expenses increased from $4.41 per barrel of oil equivalent of production to $5.74 per barrel of oil equivalent. This increase is due to the increased capital required to add proven reserves in 2000.

WORKING CAPITAL AND CAPITAL REQUIREMENTS

At December 31, 2000, Hawk had a working capital deficiency of $666,491 and bank debt of $4,709,250. Hawk will fund the large majority of its $10.0 million 2001 capital program through internally-generated cash flow. The Company has no immediate plans to raise additional funds through the equity markets. However, if equity markets for the energy sector improve, then Hawk may raise additional capital through the sale of shares.

DEBT

On December 31, 2000, the Company's bank debt consisted of a line of credit with the National Bank of Canada for $7,000,000 bearing interest at a rate of prime plus one half percent annually. As of December 31, 2000, $4,709,250 was drawn against this line of credit.

BUSINESS RISK

Hawk's forecast results are sensitive to actual realized levels of production as well as commodity prices and exchange rates which can change significantly due to factors beyond the control of the Company. Many business risks are involved in the exploration, development, production and marketing of oil and natural gas including, but not limited to, the certainty of finding and producing petroleum and natural gas reserves, commodity prices, interest rate fluctuations, and changes in government environmental, safety, and fiscal regulations. The Company manages these risks by employing competent professional staff, following sound operating practices and utilizing cash flow from operations to fund a significant portion of Hawk's capital expenditures.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF HAWK OIL INC.

We have audited the balance sheet of **Hawk Oil Inc.** as at December 31, 2000 and 1999 and the statements of operations and retained earnings and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

March 30, 2001

BALANCE SHEET

December 31	2000	1999
Assets		
Current		
Accounts receivable	$ 2,466,736	$ 598,218
Prepaid expenses	62,649	44,062
	2,529,385	642,280
Capital assets (Note 3)	17,401,706	9,006,427
	$ 19,931,091	$ 9,648,707
Liabilities and Shareholders' Equity		
Current		
Cheques issued in excess of bank balance	$ 28,522	$ 72,880
Accounts payable and accrued liabilities	3,167,354	1,470,805
	3,195,876	1,543,685
Bank debt (Note 4)	4,709,250	1,500,000
Provision for site restoration	67,937	30,412
Future income taxes (Note 6)	4,339,400	492,886
	12,312,463	3,566,983
Commitment (Note 7)		
Shareholders' equity		
Share capital (Note 5)	5,059,662	5,066,577
Retained earnings	2,558,966	1,015,147
	7,618,628	6,081,724
	$ 19,931,091	$ 9,648,707

(See accompanying notes.)

Approved on behalf of the Board:

Director

Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31	2000	1999
Revenue		
Petroleum and natural gas sales, net of royalties	$ 9,124,703	$ 3,672,078
Other income	2,176	13,087
	9,126,879	3,685,165
Expenses		
Operating	1,557,547	929,873
General and administrative	275,634	275,916
Interest	287,288	42,325
Depletion and amortization	1,488,476	747,992
	3,608,945	1,996,106
Net income before provision for income taxes	5,517,934	1,689,059
Future taxes (Note 6)	2,007,382	(698,359)
Income and other taxes (Note 6)	127,600	–
	(2,134,982)	(698,359)
Net income	3,382,952	990,700
Retained earnings, beginning of year	1,015,147	24,447
Adjustment for change in accounting policy (Note 2)	(1,839,133)	–
	(823,986)	24,447
Retained earnings, end of year	$ 2,558,966	$ 1,015,147
Basic net income per Class A shares	$ 0.63	$ 0.19
Basic net income per Class A and Class B shares (Note 1f)	$ 0.29	$ 0.09
Fully diluted net income per Class A and Class B shares (Note 1f)	$ 0.27	$ 0.09

(See accompanying notes.)

STATEMENT OF CASH FLOWS

For the year ended December 31	2000	1999
Operating activities		
Net income	$ 3,382,952	$ 990,700
Add items not affecting cash		
Depletion and amortization	1,488,476	747,992
Future income taxes	2,007,382	698,359
	6,878,810	2,437,051
Net change in non-cash working capital in operating activities		
Accounts receivable	(1,868,518)	(251,132)
Prepaid expenses	(18,587)	(29,868)
Accounts payable and accrued liabilities	1,172,282	660,590
	(714,823)	379,590
	6,163,987	2,816,641
Financing activities		
Increase in bank debt	3,209,250	1,500,000
Issuance of share capital	–	32,000
Issuance costs	–	(6,419)
	3,209,250	1,525,581
Investing activities		
Capital expenditures	(9,846,231)	(4,880,787)
Net change in non-cash working capital for investing activities	524,269	(962,738)
	(9,321,964)	(5,843,525)
Class A share purchase	(6,915)	–
	(9,328,879)	(5,843,525)
Increase (decrease) in cash	44,358	(1,501,303)
Cash (indebtedness) and short term deposits, beginning of year	(72,880)	1,428,423
Cheques issued in excess of bank balance, end of year	$ (28,522)	$ (72,880)
Basic cash flow per Class A shares	$ 1.28	$ 0.46
Basic cash flow per Class A and Class B shares (Note 1f)	$ 0.58	$ 0.22
Fully diluted cash flow per Class A and Class B shares (Note 1f)	$ 0.56	$ 0.22
Cash interest paid	$ 287,288	$ 34,552
Cash income tax paid	$ –	$ –

(See accompanying notes.)

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the reporting date and the reported amounts of revenues and expenses for the reporting periods. The more significant of these accounting policies are the following:

a) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized into a single Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related overhead charges.

Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and natural gas reserves, as determined by outside consultants, are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made or the value of these unproved properties is moved to the depletion pool.

The net carrying costs of the Company's oil and natural gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

b) Joint venture accounting

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

c) Capital assets

Capital assets are recorded at cost. Amortization is provided at the following rates and methods:

Furniture and fixtures	20% declining balance
Computer equipment	20% declining balance
Office equipment	20% declining balance

d) Future removal and site restoration costs

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

e) Flow-through shares

The deductions for income tax purposes of resource expenditures related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

f) Per share data

Basic per share data per Class A shares is based upon the weighted average number of Class A shares outstanding during the period 5,369,533 (1999 – 5,336,281). Basic per share data per Class A and Class B shares is based upon the weighted average number of Class A shares and the weighted average number of Class B shares outstanding during the period. The deemed conversion of Class B shares into Class A shares was done using December 31, 2000 trading price of $1.10 (1999 – $1.29), resulting in total Class A shares of 11,849,097 (1999 – 10,861,669). Fully diluted per share data is based upon the weighted average number of Class A and Class B shares outstanding during the period after giving effect to the exercise of the share options 12,382,097 (1999 – 11,193,877).

g) Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

h) Stock options

The consideration received from the option holder upon the exercise of a stock option is credited to share capital at the date of exercise with no compensation expense recognized at the time the stock option is issued or exercised.

i) Revenue recognition

Revenues associated with sales of natural gas, natural gas liquids and crude oil owned by the Company are recognized when title passes from the Company to its customer.

2. Change in accounting policy

Effective January 1, 2000, the Company changed accounting policies to retroactively adopt without restatement of the 1999 financial statements the liability method of accounting for income tax as recommended by the Canadian Institute of Chartered Accountants "CICA". Under this method, the Company records future income taxes based on the difference between the accounting and income tax value of an asset or liability. The Company adopted the recommendations by recording a decrease in retained earnings of $1,839,133 and an equal increase in future income tax liability.

3. Capital assets

	2000			1999
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties and equipment	$ 19,935,896	$ 2,550,370	$ 17,385,525	$ 8,988,574
Furniture and fixtures	13,254	5,516	7,738	9,673
Computer equipment	15,828	7,805	8,023	7,922
Office equipment	772	352	420	258
	$ 19,965,750	$ 2,564,043	$ 17,401,706	$ 9,006,427

During 2000, the Company incurred $9,846,231 (1999 – $4,880,787) of capital expenditures related primarily to petroleum and natural gas (P&NG) properties and equipment.

During 2000, the Company capitalized $437,254 (1999 – $360,353) in overhead related costs to petroleum and natural gas properties and equipment.

Costs associated with unproven properties excluded from costs subject to depletion for 2000 totalled $3,136,660 (1999 – $320,807).

4. Bank debt

The bank debt consists of a revolving term credit facility with the National Bank of Canada for $7,000,000 at prime plus 1/2% per year. As of December 31, 2000, $4,709,250 (1999 – $1,500,000) was outstanding. Interest incurred during the year was $275,038. The terms of debt are subject to annual review and are such that no principal repayments are required if certain reserve levels are maintained. Consequently, all of the bank debt has been classified as long-term. As collateral security, the Company has pledged a $15 million floating charge debenture against all of its assets and a fixed charge debenture against its major producing petroleum properties.

5. Share capital

a) *Authorized*

Unlimited number of Class A voting shares
Unlimited number of Class B subordinated voting shares

The Class B shares are convertible into Class A shares at a date to be selected by the Company, between June 30, 2000 and June 30, 2002 and at the option of the Class B shareholder between July 1, 2002 and August 31, 2002. Any Class B shares outstanding on August 31, 2002 shall be automatically converted into Class A shares. The fraction of a Class A share obtained upon conversion of each Class B share will be equal to $10.00 divided by the greater of $1.00 and the current market price of a Class A share.

b) Issued

	Number of Shares	Amount
Class A shares		
Balance Class A shares, December 31, 1998	5,322,400	$ 1,893,968
Issued for cash	53,333	32,000
Share issue costs	–	(6,418)
Tax effect of flow through	–	(505,020)
Balance Class A shares, December 31, 1999	5,375,733	1,414,530
Purchased for cash	(6,200)	(6,915)
Balance Class A shares, December 31, 2000	5,369,533	$ 1,407,615
Class B shares		
Balance Class B shares, December 31, 1998	712,752	$ 4,023,750
Tax effect of flow through	–	(577,176)
Deferred income taxes	–	205,473
Balance Class B shares, December 31, 1999	712,752	3,652,047
Balance Class B shares, December 31, 2000	712,752	$ 3,652,047
Total share capital, December 31, 1999	–	$ 5,066,577
Total share capital, December 31, 2000	–	$ 5,059,662

c) Share purchase

Pursuant to a normal course issuer bid, the Company purchased 6,200 Class A shares at prices of $1.10 and $1.08 during the year for a cost of $6,915.

d) Share option plan

The Company has an Employee Incentive Stock Option plan ("Plan") that is administered by the Board of Directors of the Company. All directors, officers, employees and certain consultants are eligible to participate in the Plan. Under the terms of the Plan, the Company has reserved an amount of Class A common shares for options equal to 10% percent of the issued and outstanding shares of the Company. The maximum option term is 5 years and options are non-assignable and non-transferable.

During 2000, no options were exercised, 140,000 options were granted at an exercise price of $1. During 1999, 53,333 options were exercised at a price of $.60 per share.

Number of Options	Options Vested	Exercise Price Per Option	Expiry Date
195,000	130,000	$ 0.60	April 15, 2002
99,667	48,667	$ 0.60	August 7, 2002
45,000	15,000	$ 0.70	February 19, 2004
53,333	17,777	$ 1.50	September 28, 2004
140,000	–	$ 1.00	June 1, 2005
533,000			

6. **Future income taxes**

The difference between the accounting value and the income tax value of the Company's assets and liabilities, which comprise the future tax liability, are as follows:

Future income tax liabilities	
Capital assets	$ 4,436,005
Future income tax assets	
Site restoration	(30,096)
Share issue costs	(66,509)
Net future income tax liability	$ 4,339,400

The future income tax provision differs from the expected amount computed by applying the Canadian combined Federal and Provincial income tax rate of 44.3% as follows:

	2000	1999
Computed "expected" income tax expense	$ 2,444,442	$ 748,253
Non-deductible crown charges and other expenses	568,447	75,101
Non-deductible depletion		161,767
Resource allowance	(854,831)	(256,583)
Alberta Royalty Tax Credit	(49,112)	–
Other	936	(30,179)
Large corporations and capital taxes	25,100	
	$ 2,134,982	$ 698,359

The Company applied its entire balance of approximately $177,000 of non-capital loss carryforwards to reduce fiscal 2000 taxable income. The Company has tax pools in respect of capital assets of approximately $7,388,153. In addition, the Company has available for deduction against taxable income share issue costs of approximately $150,000.

7. **Commitment**

The Company is committed to lease payments for occupancy costs and office equipment for the next three years (commitments expire in 2003) as follows:

2001	$ 75,267
2002	59,737
2003	3,867

8. **Financial instruments**

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, all current liabilities and bank debt.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount due to the short-term maturity of those instruments.

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

Interest rate risk

At December 31, 2000, the Company was exposed to interest rate fluctuations as interest on the Company's bank debt varies with changes in prime rate. A one percent variation in the interest rate would result in a $47,000 variance in the interest expense.

CORPORATE INFORMATION

DIRECTORS

Steve Fitzmaurice, P.Eng*
Chairman of the Board
Calgary, Alberta

Erik DeWiel, P.Land
Calgary, Alberta

Randy Deobald, P.Geol.
Calgary, Alberta

John Wright, P.Eng. C.F.A.⁺
Calgary, Alberta

Thomas Buchanan, C.A.*⁺
Calgary, Alberta

Mike Shaikh, C.A.*
Calgary, Alberta

* members of the audit committee
⁺ members of the reserve committee

OFFICERS

Steve Fitzmaurice, P.Eng.
President and Chief Executive Officer

Erik DeWiel, P.Land
Vice President, Land and Business Development

Randy Deobald, P.Geol.
Vice President, Exploration

Greg Turnbull, L.L.B.
Secretary

OFFICE

Suite 490, 734 - 7th Avenue S.W.
Calgary, Alberta T2P 3P8
Telephone: (403) 262-1131
Facsimile: (403) 313-4295
Email: hawkoil@cadvision.com

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

ENGINEERING CONSULTANTS

Gilbert Lousten Jung Associates Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

SOLICITORS

Gowling Lafleur Henderson LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Trading Symbols: Class A Shares - **HWK.A**
Class B Shares - **HWK.B**

NGLs	natural gas liquids
bbls	barrels
mcf	thousand cubic feet
boe	barrels of oil equivalent
mbbls	thousand barrels
mmcf	million cubic feet
mboe	thousand barrels of oil equivalent (1bbl = 10mcf)
DCF	discount factor
$M	$ thousand
P/E	price to earnings ratio
WTI	West Texas Intermediate
mcfd	thousand cubic feet per day
bopd	barrels of oil per day
WI%	working interest percent
mmbtu	million British thermal units
NAV	net asset value

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HAWK OIL INC.

Suite 490, 734 - 7th Avenue S.W.
Calgary, Alberta T2P 3P8

Telephone (403) 262-1131
Facsimile: (403) 313-4295
E-mail: hawkoil@cadvision.com
Class A Shares - HWK.A
Class B Shares - HWK.B

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